



CARLSBERG MANAGEMENT COMPANY

6171 WEST CENTURY BOULEVARD, SUITE 100
LOS ANGELES, CALIFORNIA 90045
POST OFFICE BOX 92006
LOS ANGELES, CALIFORNIA 90009-2006
310 258-9000 FAX: 310 258-9009

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REGULATORY AUTH.
'99 AUG 23 AM 8 54
OFFICE OF THE
EXECUTIVE SECRETARY

August 19, 1999

Via Federal Express

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

**Re: Hickory Star Water Company, LLC
Docket #99-00485**

Dear Mr. Waddell:

In response to your letter dated August 12, 1999, we submit the following:

1. Provide detailed calculations of how the proposed tariff rates achieve the desired rate of return for the return on net investment in plant.

Response: The net investment in plant is \$145,980. The average net income over the next five years is estimated to be \$9,153.20 so the average rate of return will be 6.3%.

2. Submit a detailed description of the wastewater system and how the ratepayers are given access to the system. Provide detail on what expenses are necessary to justify charging the ratepayers for the service. Do all of your customers plan to apply for wastewater service provided by your company? If not, why not? What is the maximum capacity of the wastewater treatment system?

Response: The water company owns four septic tank systems that can accommodate 18,000 gallons per day. The system presently is used to service the commercial customers for the campground, restaurant, small motel and marina. There are plans to sell 16 recreational vehicle lots to the public. These lots are too small to build individual septic tanks so we plan to allow these customers to use the septic tank system and to be charged the sewer rates outlined in the tariff. The RV sites already exist so there will be no increase in demand on the system. Present usage of the sewer septic system is less than 10% of capacity. The only customers who will use the system are the present commercial customers and the 16 RV sites. The reason our other customers will not use the sewer system is because the lots in existence or to be developed will have their own private septic system on site. The only expense of a septic

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system is the charge to pump the system. You will see that they average about \$1,000 per month. There are no other details to provide you.

3. Provide a description of "Subscriber Fees". Please show detailed supporting calculations for the estimated income for subscriber fees for 2001-2004.

Response: Subscriber fees are standby fees. A customer can pay the tap-in fee and reserve service until he builds his house and pay the minimum amount of \$18.38 per month. You will see from the notes that we project that several customers will elect to have water available, but not use it. The calculation is to multiply the number of subscribers by \$18.38 and then multiply by 12 to determine the annual fees.

4. Provide detail of the operating expenses for both water and wastewater for all years.

Response: We provided as much detail as there is available. There simply is nothing more to provide.

5. Why are water meters expenses rather than capitalized as required?

Response: We have adjusted Exhibit 8 to remove the purchase of water meters from the income statement. A corrected Exhibit 8 is enclosed.

6. Please provide a breakdown for payroll for each year referenced in the filing by employee, salary and job description.

Response: The total payroll that is projected is only \$1,000 per month. We provided you with the names of the people who will be involved with the water company. We will allocate a portion of their salaries to the water company. It is not going to be a full time job for anyone. I would hope that with such a small payroll we do not have to go into more detail. What purpose does it serve?

7. On the balance sheet provided in the filing, there are no contributions in aid of construction listed, but there are tap fees recorded on the income statement.

Response: There is no CIAC on the balance sheet because there is no CIAC being contributed now. The contribution will be in the future when we start collecting tap-in fees. We will put CIAC on the balance sheet at that time. There are plans to develop an additional 65 lots in the area. When the lots are developed and when the water company accepts them, then we will add the CIAC to the balance sheet. We will then know exactly what the cost is.

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8. Provide the supporting detail of the amount recorded on the balance sheet for "Building and Improvements" in the amount of \$32,815. What are "Accumulated Deposits"?

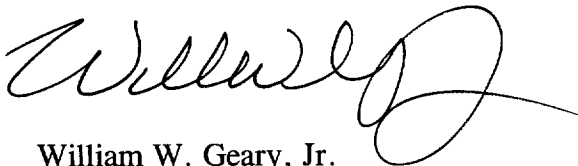
Response: You will find enclosed a letter from our engineer who appraised the value of the water lines and improvements that were contributed to the water company. "Accumulated Deposits" was an error. It should be "Accumulated Depreciation." A corrected Exhibit 9 is enclosed.

* * *

We understand that the company will be required to maintain its financial statement in accordance with the Uniform Systems of Accounts for Class C Water Utilities. We prepared projections based upon cash flows.

Sincerely yours,

CARLSBERG MANAGEMENT COMPANY



William W. Geary, Jr.
President

WWG/cs
Enclosures

cc: Jerry Cockrell (w/encls.)
Ming-chu C. Rouse, Esq. (w/encls.) – Via Fax
Mike Churchill (w/encls.) – Via Fax

EXHIBIT 8

BALANCE SHEET FOR
HICKORY STAR WATER COMPANY, L.L.C.
AS OF FEBRUARY 28, 1999

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ASSETS

Cash		\$ 125,000
Buildings and Improvements	32,815	
Less Accumulated Depreciation	<u>(11,735)</u>	
Net		<u>21,080</u>
Total Assets		<u>\$ 146,080</u>

LIABILITIES & EQUITY

Accrued Expenses		\$ 100
Capital		
Paid in Capital	146,080	
Retained Earnings	<u>(100)</u>	
Total Capital		<u>145,980</u>
Total Liabilities & Equity		<u>\$ 146,080</u>

EXHIBIT 9

HICKORY STAR WATER COMPANY, L.L.C.
FIVE-YEAR PRO FORMA INCOME AND EXPENSE STATEMENT

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Income	Years Ending February 28				
	2000	2001	2002	2003	2004
Residential Water Usage	\$ 34,235	\$ 40,276	\$ 46,990	\$ 57,059	\$ 63,772
Commercial Water Usage	13,140	13,140	13,140	13,140	13,140
Sewer Fees	12,300	13,200	14,400	15,000	15,000
Subscriber Fees	-	2,206	5,514	8,822	4,095
Tap in Fees	30,420	10,530	14,625	17,550	8,161
Total	90,095	79,352	94,669	111,571	104,168
Expenses					
Water cost paid to City of Maynardville	24,827	27,347	30,497	35,222	38,222
Service fee to City of Maynardville	19,476	19,476	19,476	19,476	19,476
Payroll	12,000	12,000	12,500	20,000	20,000
Repairs and maintenance	4,900	4,900	4,900	5,400	5,400
Testing and administrative	3,600	3,600	3,600	4,000	4,000
Septic tank maintenance	11,070	11,070	11,070	13,284	13,300
Total	75,873	78,393	82,043	97,382	100,398
Net Income	\$ 14,222	\$ 959	\$ 12,626	\$ 14,189	\$ 3,770

**EXHIBIT 9
HICKORY STAR WATER COMPANY
PROFORMA INCOME AND EXPENSE STATEMENT**

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NOTES:

1. Income projections are based upon 132 potential customers divided as follows:

Commercial Customers	1
Current Residential Customers	51
Future Residential Customers	65
Camp Sites	<u>15</u>
	132

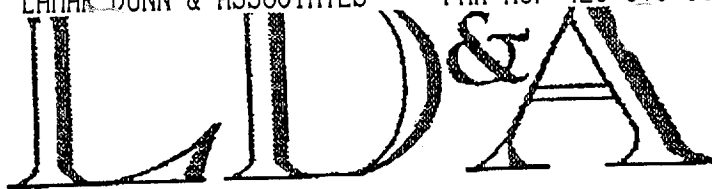
Usage has been determined using an average of 250 gallon per day for each residential customer and 6,667 gallons per day for the commercial customers.

Projected customers by year has been assumed as follows:

	Years				
	1	2	3	4	5
Commercial Customers	1	1	1	1	1
Residential Customers	52	70	95	125	132
Subscriber fees	0	10	25	40	37
Tap in fees	52	18	25	30	7
Sewer Customers	1	5	12	15	15

Rates shown in the tariff were used to determine income.

- II. Expenses. Water costs were determined using the published rates of the City of Maynardville.

**Lamar Dunn & Associates Inc.**3305 Maloney Road
Knoxville, Tennessee 37920
Phone: 573-7672/Fax: 573-1352
E-Mail: cldunn@usit.netREC'D TO
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FACSIMILE COVER SHEET

PLEASE DELIVER THE FOLLOWING PAGES TO:

DATE: 26 Aug 98 TIME: _____
COMPANY: CARLSBURG MNGMT
ATTENTION: JERRY COCKRELL FAX NO.: _____
FROM: S BOSTIC PAGES TRANSMITTED
(including cover page) 1

MESSAGE:

JERRY: VALUE OF WATER SYSTEM ITEMS:1. ORIG SYSTEM (1969±)A. PIPES, VALVES, ETC - \$5500.00 40 yr LIFEB. PUMPS, TANKS, ETC - \$0 15 yr LIFE2. 1989 EXPANSIONA. PIPE, VALVES, ETC. - \$19,375.00 40 yr LIFEB. PUMPS, TANKS, ETC. - \$7940.00 15 yr LIFE3. NEW SUBDIVISION WHEN CONSTRUCTED - \$100,000A LETTER WILL FOLLOW OUTLINING HOW WE
REACHED THE ABOVE NUMBERS. (STRAIGHT LINE
ASSUMING \$0.00 @ END OF PERIOD)